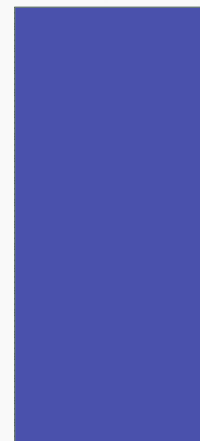


# APPORTIONMENT FORMULAS

TELECOMMUNICATIONS SERVICE PROVIDERS,  
BROADCASTERS, AND PUBLISHERS



# APPORTIONMENT FORMULA

- Fairly apportion the income of a multistate corporation to each of the states in which it has nexus
- Use of industry specific formulas when the general formula does not accurately reflect the income of the corporation derived from North Carolina and the citizens of North Carolina
- DOR brought to the attention of Revenue Laws three industries whose income derived from North Carolina is not accurately reflected by the general apportionment formula

# RECOMMENDATION

- Payroll Factor – No change
- Property Factor – Exclude outer jurisdictional property
- Sales Factor – Modify
  - **Publishers** – Include sales of advertising and the sale, rental, or other use of publisher's customer lists. Source based on a circulation factor.
  - **Broadcasters** – Include gross receipts from video programming and audio programming. Source based on an audience factor.
  - **Telecommunications service provider** -- Include telecommunication service. Source based on sales tax sourcing rules.

# PROPOSAL: OUTER JURISDICTIONAL PROPERTY

- Exclude outer-jurisdictional property from property factor for all corporations
  - Tangible personal property that is not physically located in any state and therefore is not taxable in any state
  - Examples include orbiting satellites and undersea transmission cables
  - Excluding the property from the formula will prevent the dilution of income sourced to North Carolina
  - Factor will be *Property taxable in NC/Property taxable in another jurisdiction*
  - As opposed to *Property taxable in NC/Property elsewhere*

# PROPOSAL: TELECOMMUNICATIONS SERVICE PROVIDERS

- Modify current industry specific apportionment formula
  - Current formula only applies to landlines
  - Proposal would modernize the formula by extending its application to all telecommunications service providers
- Modify the numerator
  - Include gross receipts from telecommunications service
  - Use the same sourcing rules as applied in sales tax statutes
  - Recommendation of MTC and DOR
- Modify the denominator
  - Exclude gross receipts from the sale of service that is not taxable in the state to which it would be apportioned
  - Recommendation of MTC and DOR

# PROPOSAL: BROADCASTERS

- New industry specific apportionment formula
- Modify numerator
  - Include all receipts from broadcast programming
    - Video programming as defined in the sales tax statutes
    - Audio programming
  - Source based upon an *audience factor*
    - Ratio of the corporation's NC listening or viewing audience to the corporation's total listening or viewing audience
    - Corporation may use published ratings or subscription statistics to determine its audience factor
  - Recommendation of MTC and DOR

# PROPOSAL: PUBLISHERS

- New industry specific apportionment formula
- Modify numerator
  - Include receipts from advertising and from the sale, rental, other use of its customer lists
  - Source based upon a circulation factor
    - Ratio of the corporation's NC purchasers and subscribers of a publication to the corporation's total purchasers and subscribers of the publication
  - Recommendation of MTC and DOR